

'Free' credit reports sometimes aren't free

And it's not easy to figure out which score to use

By Byron Acohido And Jon Swartz

SEATTLE — Like many consumers, Wendy Temple's first step shopping for a mortgage was to go online to get a sense of where she stood as a prospective borrower.

Temple, an accountant, surfed to TrueCredit.com, a popular website owned by TransUnion, one of the Big Three credit bureaus. There she purchased her TransRisk credit score, TransUnion's assessment of her credit worthiness. Temple thought her score — 608 — was just high enough for her to qualify to buy a \$207,000 home in a gated community in Holiday, Fla.

"I was so excited," says Temple, who signed a purchase agreement with her fiance. But not for long. The mortgage company, it turned out, judged Temple, 33, differently. It looked at her FICO score, the assessment widely used by lenders, based on a formula supplied by Fair Isaac. Temple's FICO score was nearly 100 points lower than her TransRisk score. "Needless to say, we had to back out of our contract," she says.

Temple didn't know that TransUnion and the other bureaus are trying to wrest control of the credit-scoring market from Fair Isaac. She had no way of knowing the competing scores differed. But who can blame her? Confusion awaits any consumer who dares tread online in search of a credit score, personal finance experts say. "It's one of the biggest rip-offs you can find," says credit consultant John Ulzheimer, author of *You're Nothing But A Number: Why Achieving Great Credit Scores Should Be On Your List of Wealth Building Strategies*.

Misleading credit scores aren't the only snare. Consumers are also getting tricked into paying for basic credit reports before obtaining the ones they can get free, as mandated by the federal government in 2003. The only place those free reports are available is at AnnualCreditReport.com, run jointly by the Big Three (Experian, TransUnion and Equifax).

Yet, dozens of websites affiliated with the bureaus falsely imply that they can also distribute the government-mandated free reports. At FreeCreditReport.com, ConsumerInfo.com, PrivacyMatters.com, Free3BureauCreditReport.com and other similarly named websites, free trial offers and package deals abound. The most ubiquitous: pitches for free credit reports and free credit scores if you subscribe to a "credit monitoring" service that alerts you each time a lender checks your credit history, says Robert Mayer, a University of Utah professor who has analyzed two dozen such sites for *Consumer Reports WebWatch*. "The word 'free' is used so freely that it really has no meaning in the context of these types of sites," Mayer says.

Creative marketing

The profusion of websites hawking credit reports, credit scores and credit monitoring to consumers have one thing in common: They all sell data supplied by the Big Three. The bureaus are the drivers behind a blizzard of consumer promotions for credit reports (a record of how you pay your bills); credit scores (a calculation of your creditworthiness, based on your credit report); and credit monitoring (a monthly subscription service, which credit experts say is of marginal value). Thanks to the Fair and Accurate Credit Transactions Act of 2003, each bureau must supply every consumer with one free credit report a year.

But while meeting the minimum requirements of this federal mandate, the Big Three have been energetically tapping online shoppers for hundreds of millions of dollars of fresh revenue and profit. How? By selling credit data via websites that use "free credit report" and "free credit score" as inducements to sign up for credit monitoring, which has become a cash cow.

No surprise that the vast matrix of websites pitching credit data to consumers engenders befuddlement. Even industry insiders say it's all too easy for consumers to get flummoxed. "There should be more

education about what you receive and how to navigate the various sources of information," says Mark Catone, senior vice president of First American Credco, which processes credit reports.

Experian, for instance, sells to consumers at Experian.com — and at six other sites. Experian spokesman Don Girard says that selling to consumers at websites using different names "is just creative marketing."

TransUnion, privately owned by the billionaire Pritzker family of Chicago, operates TrueCredit.com, the site where Wendy Temple bought her TransRisk credit score, as a wholly owned subsidiary.

Another major subsidiary, TransUnion Interactive, distributes consumer products via dozens of independently run websites, company spokesman Steve Katz says. These include PrivacyMatters.com, free-credit-reports.com, Credit.com, Free3BureauCreditReport.com, FreeCreditReportInstantly.com, speedycreditreports.com and SpendonLife.com, Katz says.

Equifax alone sells consumer products primarily through its eponymous website, Equifax.com. "Our approach has always been to take the high road," says Steve Ely, president of Equifax's Personal Solutions.

Joel Winston, the FTC's associate director of privacy and identity protection, credits the bureaus for improving their public disclosure statements in recent months. But he says the FTC remains "very concerned" about any lingering confusion.

"The principle we're upholding is, you've got to make clear what it is you're selling," Winston says. "And also make all of the conditions clear."

Happy consumers

The Big Three for decades denied consumers access to their credit histories, selling data exclusively to lenders. But no more.

Once the government gave consumers the right to a free copy of their credit report, the bureaus moved aggressively to tap the consumer market. U.S. sales of credit data to consumers — negligible in 2000 — hit \$220 million in 2003, soared to \$488 million in 2006, and should top \$860 million by 2010, says Craig Focardi, financial services analyst at market researcher TowerGroup. Though consumer sales make up only a fraction of the bureaus’ lender-centric operations, they have become the bureaus’ fastest-growing source of revenue.

But this windfall derives from an online marketing free-for-all in which many websites and promotional offers aren’t what they seem. “Consumers face a bewildering variety of things to click on, some of which is valid, much of which is not,” says Pam Dixon, executive director of the World Privacy Forum.

The bureaus make no apologies for how and what they sell to consumers. The biggest bureau, Dublin-based Experian, reported \$375 million in consumer sales in its fiscal year ended last April.

“Unhappy consumers don’t buy your stuff,” Experian’s Girard says. “We’ve been averaging about 20% growth in our direct-to-consumer business, year over year. That’s due to happy consumers.”

Not all consumers are endeared with Experian. The company’s well-known subsidiary, Consumerinfo.com, has been fined twice by the FTC. In August 2005, Experian paid the FTC \$950,000 to settle charges that Consumerinfo.com misled consumers into subscribing to an \$80-a-year credit-monitoring service. In February, Experian paid the FTC a smaller fine — \$300,000 — to settle a second round of similar complaints.

Experian admitted no wrongdoing in either FTC case. It agreed to post disclaimers on all its websites. On Consumerinfo.com’s home page, that disclaimer is in small, light blue lettering on dark blue background next to a large “order now” button for a credit monitoring subscription. The order button is bright orange.

In March, about a month after Experian paid its second FTC fine, Melissa Duenas, 28, a customer service representative in Denver, surfed to Experian.com in an

attempt to obtain her free credit report. She recalls being guided to a Web page where she typed in a credit card number, as directed, thinking it was part of verifying her identity. Actually, Duenas had signed up for trial use of a credit-monitoring service. After a month of free service, Experian initiated a recurring \$13-a-month charge, which was dropped only after Duenas complained. “It was misleading and ridiculous,” she says. The FTC and Experian say the service was properly explained.

Turf war

Consumer advocates advise credit data shoppers to remain extremely wary. “The credit bureaus continue to foster consumer confusion and profit handsomely,” says Jeannine Kenney, senior policy analyst at Consumers Union. “It’s a disservice to consumers.”

Shopping for a credit score can be mind boggling. That’s because, like Temple, most consumers are oblivious to the rising turf war between the Big Three and Fair Isaac, supplier of the formula for calculating FICO, the score lenders most often purchase from the bureaus to determine a loan applicant’s credit worthiness. About 18 months ago, the bureaus began offering lenders an alternative score: VantageScore, based on an algorithm of their own contrivance. By pooling their data, the bureaus claim, they’ve come up with a scoring tool more accurate than FICO.

The Big Three have begun to whittle away at Fair Isaac’s long-held dominance of the credit-scoring market. “We expect VantageScore to become the pre-eminent offering over time,” Experian’s Girard says.

Experian and TransUnion are simultaneously delivering VantageScores — as well as other proprietary scores — to consumers who have no inkling how the bureaus’ proprietary scores differ from their FICO scores, personal finance experts say.

“Fair Isaac has done a good job of almost having a monopoly,” says Chris Larsen, founder of E-Loan and Prosper.com, online consumer lending services. “Now we see the bureaus themselves trying to take over that business.”

As this rivalry heats up, consumers need to know that buying a credit score from Experian or TransUnion generally means you are not buying your FICO score. It could be a VantageScore. Or Experian’s Plus score or TransUnion’s TransRisk score.

“The thing that concerns us the most is that they’re not telling consumers the scores they’re buying are different, and they’re implying their proprietary scores are the ones used by everybody,” says Fair Isaac COO Michael Campbell. The only place consumers can buy FICO scores are at Fair Isaac’s consumer website, myFICO.com, or at Equifax.com. Equifax is the only bureau that sells FICO scores to consumers.

While trying to rebuild his credit to buy a house, William Palmer, 26, a tech professional in Chattanooga, Tenn., found that the credit scores he purchased online from Experian and TransUnion were 30 to 40 points higher than his FICO score, purchased from MyFico. “The scoring system is all over the board,” Palmer says.

The bureaus say their websites offer extensive guidance. And they say VantageScore and their proprietary scores do as well as Fair Isaac’s FICO score in pegging a person’s creditworthiness. While declining to answer questions about Wendy Temple, TransUnion’s Katz noted that the TransRisk score assesses “how lenders are likely to view them as a loan candidate.”

Maybe so, but Temple’s hopes were dashed because no one told her that her TransRisk didn’t correlate with her FICO score. She was trying to rebound from bankruptcy, stemming from taking a lower-paying job so she could help her ill mother. With her accountant’s training and penchant for online research, she believed she was pretty savvy about online credit services.

“I thought I was finally on my way to rebuilding my credit,” she says. “Boy, was I mistaken.”

Objectives

- ▶ Read the article “Free’ credit reports sometimes aren’t free.”
- ▶ Investigate the websites of three online credit bureaus.
- ▶ Understand how FICO scores are calculated.
- ▶ Identify the habits necessary to achieve and maintain a high credit score.

Preparation

Each student will need:

- ▶ A copy of the article “Free’ credit reports sometimes aren’t free.”
- ▶ A copy of the lesson.
- ▶ Access to the Internet.

1. Read the article and answer discussion questions. (20 minutes)

- ▶ Where can you get free credit reports from the big three credit bureaus each year by mandate of the federal government?
- ▶ What is the definition of credit report? Credit score? Credit monitoring?
- ▶ What does credit monitoring do for you?
- ▶ Do some financial experts think credit monitoring is a good value?
- ▶ What is VantageScore?
- ▶ What is a FICO score?
- ▶ Which score do lenders look at when determining your creditworthiness?
- ▶ Where can you get your FICO score?
- ▶ What is a disclaimer?
- ▶ Do you think Wendy Temple made a simple mistake? Should she have known she was buying the wrong score? Why or why not? What could she have done to make sure she was getting what she really wanted?

2. Compare online credit bureaus. (20 minutes)

Visit the websites of the “Big Three” credit bureaus. In one or two sentences, explain what consumers should know about each (e.g., what the costs are, what the fine print says, etc.).

TransUnion www.transunion.com	
Experian www.experian.com	
Equifax www.equifax.com	

Now, briefly state where a consumer should go to obtain the most accurate credit information.

3. Understand how FICO scores are calculated. (15 minutes)

Directions: A FICO score is your credit rating. (The score is named after the company who developed the process — the Fair Isaac Corp.) Most lenders base their approval to extend loans on these scores. The following factors help determine a person’s FICO score: bill payment history, types of credit used, amount of new credit, total money owed and length of credit history. Lenders believe FICO scoring to be highly predictive of future payment risk. FICO scores range from 300 to 850. The higher your score, the easier it will be to get a loan and the lower your interest rate will be.

Review the information below. Then, complete the graphic organizer on the following page.

► **Payment History** (35% of score)

This number keeps track of whether you have been making your payments on time.

► **Amounts Owed** (30% of score)

How much you owe and to whom you owe it.

► **Length of Credit History** (15% of score)

A longer, positive history will increase your score.

► **New Credit** (10% of score)

Opening several new accounts or having many inquiries into your credit history in a short period of time will affect your chances of qualifying for credit.

► **Types of Credit Used** (10% of score)

If you have a lot of lenders who are classified as “D” or subprime (i.e., they loan money at high-interest rates to consumers with bad or no credit), you may be placed in a high-risk category, even if your payment history is perfect.

Credit score graphic organizer

Decide whether each of the following characteristics is indicative of a person with a high or a low credit score. Then, list each trait in the appropriate box.

Characteristics of credit history:

- ▶ Pays bills 30 days late.
- ▶ Pays bills on time.
- ▶ Creditors charge this consumer the lowest rates.
- ▶ Has been denied credit.
- ▶ Has maxed out his credit line on all of his credit cards.
- ▶ Pays off debt.
- ▶ Cell phone company feels very comfortable selling their services to this person.
- ▶ Frequently opens new credit card accounts.
- ▶ Does not make loan payments on time.
- ▶ Makes loan payments on time.

Person 1 – credit score of 700	Person 2 – credit score of 450
1.	1.
2.	2.
3.	3.
4.	4.
5.	5.

4. Debrief and apply. (5 minutes)

- ▶ When do you think you will need to start worrying about your credit score?
- ▶ When or if you have your own credit card, how can you keep your credit record clean?
- ▶ Why does it matter whether a lender gives you a low or high interest rate when you buy a car, home or other big ticket item?